

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PM-07 DODE-00 PA-04 USIA-15 PRS-01 IGA-02

ACDA-19 AGR-20 SWF-02 FEA-02 DRC-01 /205 W

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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 8342

C O N F I D E N T I A L ADDIS ABABA 3739

E.O.11652: GDS

TAGS: ECON, EFIN, ET

SUBJ: ECONOMIC IMPACT OF RECENT DISTURBANCES IN ETHIOPIA

REF: A. ADDIS A-54, MAR 27, 1974; B. ADDIS 3524

1. COMMENTS OF FINANCE VICE MINISTER ASHENSAFI INCLUDED REF B
REQUIRE FOLLOWING MODIFICATIONS IN BUDGETARY ANALYSIS INCLUDED
REF A:

A. REVENUE: UPON FURTHER USAID INQUIRY, ASHENAFI COMMENT
PARA 4 REF B RE EXCISE TAXES MISUNDERSTOOD. ASHENAFI MEANT TO
INDICATE EXCISE TAXES HAD BEEN RUNNING AHEAD OF BUDGETED LEVEL
(CONFIRMING COMMENTARY PARA 3 REF A) AND THAT THIS EXTRA REVENUE
WAS UNRECOVERABLY LOST DURING STRIKE. ASHENAFI CONCLUDES HE
NO LONGER EXPECTS TOTAL REVENUE TO EXCEED BUDGETED FIGURE OF
ETH\$610 MILLION.

B. COST OF REFINERY SUBSIDIZATION: ASHENAFI ESTIMATES
THIS LOSS AT ETH\$12.5 FOR REMAINDER OF THIS FISCAL YEAR
COMPARED WITH REPAIR ESTIMATE OF ETH\$15 MILLION.

C. REDUCTION IN LOCAL COST EXPENDITURES IN CAPITAL BUDGET:
IN CONTRAST TO IEG ANNOUNCEMENT THAT THESE EXPENDITURES WOULD
BE REDUCED BY AMOUNT EQUIVALENT TO REFINERY SUBSIDIZATION,
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ASHENAFI STATED NO SUCH CUTS CAN OR WILL BE UNDERTAKEN.

D. SALARY INCREASES: IN CONTRAST PUBLISHED ANNOUNCEMENT THAT THESE SALARY INCREASES WOULD TAKE EFFECT MAR 26, ASHENAFI INDICATED THEY WOULD REQUIRE PRIOR PARLIAMENTARY APPROVAL. HE DID NOT INDICATE WHETHER SUCH PARLIAMENTARY APPROVAL WOULD BE OBTAINED DURING REMAINDER THIS FISCAL YEAR OR WHETHER INCREASES WOULD BE MADE RETROACTIVE TO MAR 26. ACCORDING EMBASSY CONTACTS ASHENAFI CONTENTION THAT SALARY INCREASES NOT YET EFFECTIVE APPEARS CORRECT. OBSERVERS, HOWEVER, UNIVERSALLY AGREE THAT IEG CANNOT DELAY IMPLEMENTATION FOR EXTENDED PERIOD WITHOUT PROVOKING SEVERE POLITICAL REPERCUSSIONS.

2. IN ABSENCE IMPLEMENTATION SALARY INCREASES DURING REMAINDER THIS FISCAL YEAR AND IN LIGHT ABOVE CLARIFICATIONS, BUDGETARY PROJECTION PARA 4 REF A CAN BE REVISED AS FOLLOWS:

REVENUES	610
OPERATING BUDGET SURPLUS	52
CAPITAL BUDGET DOMESTIC DEFICIT	28

THIS PROJECTION, WHICH INDICATES THAT DEFICIT FINANCING WOULD REMAIN AT APPROXIMATELY ORIGINAL BUDGET LEVEL, INVOLVES FUNDING OF ETH\$10 MILLION REFINERY SUBSIDIZATION OUT OF OPERATING BUDGET CUTS ELSEWHERE. IEG ANNOUNCED 10 PERCENT CUT IN SPECIFIC OPERATING EXPENDITURES ACCORDING PARA 5 A REPAIR IS ALSO CONFIRMED BY TRADE SOURCES WHO REPORT SUBSTANTIAL DROP IN IEG PROCUREMENT LEVELS.

3. ALTHOUGH IEG ACCEPTANCE OF POLITICAL RISK OF DELAYING SALARY INCREASES FOR REMAINDER THIS FISCAL YEAR IS BARELY CONCEIVABLE, EMBASSY FINDS IT HARD TO BELIEVE THAT IEG COULD MAINTAIN SUCH POLICY INTO FY 75 UNLESS CONSERVATIVE ELEMENTS REGAIN EFFECTIVE CONTROL OF MILITARY AND POLICE. ON ANNUAL BASIS, SALARY INCREASES SO FAR AGREED TO TOTAL APPROXIMATELY ETH\$55 MILLION OF WHICH MILITARY, ETH\$40 MILLION; TEACHERS, ETH\$10 MILLION; STEP INCREASES FOR LOWEST PAID CIVIL SERVANTS, ETH\$5 MILLION. SAVINGS OF THIS MAGNITUDE IN FY 75 OPERATING BUDGET CLEARLY IMPOSSIBLE. IN ABSENCE SUBSTANTIAL INCREASE IN DEFICIT FINANCING OR OFFSETTING FOREIGN ASSISTANCE FUNDING OF LOCAL COSTS, WHICH MAY WELL BE IEG AIM, EMBASSY DOES NOT SEE HOW ORIGINAL FY 1975 LEVEL OF LOCAL COST EXPENDITURES IN CAPITAL BUDGET CAN BE MAINTAINED, ASHENAFI'S CONTENTION NOTWITHSTANDING. WYMAN

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